

FDIC State Profile

Winter 2004

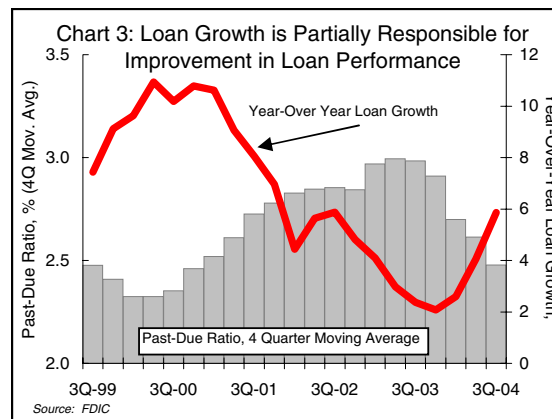
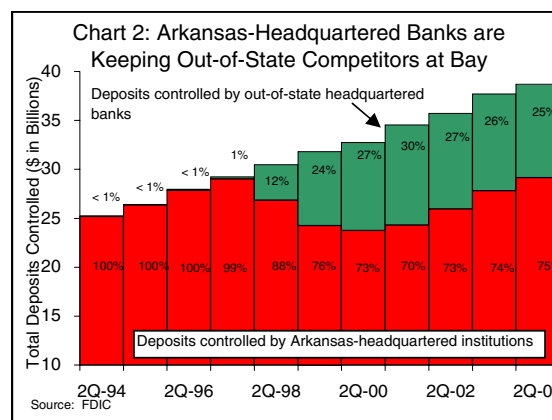
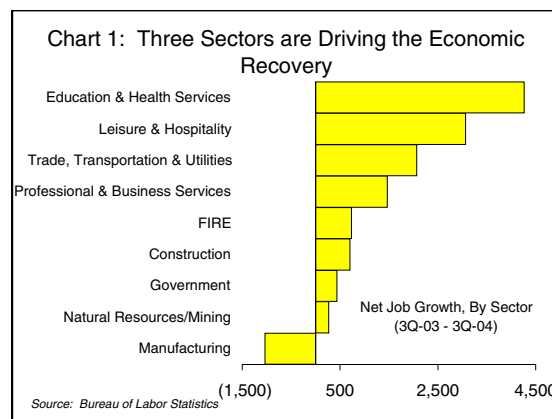
Arkansas

Improved economic conditions in 2004 foreshadow a favorable new year.

- Total non-agricultural employment surged by almost 12,000 during the year ending third quarter 2004, with nearly half of the gains occurring in the most recent quarter. This 1.05 percent year-over-year increase in employment is the largest since third quarter 2000 and marks the fourth consecutive quarter of positive employment growth. Employment in Arkansas is expected to expand at a slightly faster pace,¹ but still below the nation in 2005,² with most gains in the service-providing sector.
- With the exception of the manufacturing sector, all major state employment sectors posted positive year-over-year growth during third quarter 2004. The leisure and hospitality and education & health services segments led the way, expanding by 3.47 and 3.05 percent, respectively (See Chart 1). State manufacturing employment is forecast to decline modestly in 2005.
- Arkansans are apparently benefiting from improved economic conditions and low interest rates as evidenced by a 6.9 percent year-over-year drop in second quarter 2004 bankruptcy filings, the largest year-over-year decline since 1994. Additional evidence of improvement includes reports from banks headquartered in the state and the Mortgage Bankers Association showing drops in consumer loan and mortgage loan delinquency rates. The previously mentioned forecasts for continued economic growth combined with a relatively low interest rate environment should aid consumers' finances in the near term.

Arkansas-headquartered banks regain market share from out-of-state competitors.

- Between the passage of the Riegle Neal Act³ in 1994 and the second quarter of 2001, out-of-state banks operating inside Arkansas rapidly expanded. At their peak, these banks controlled 30 percent of total state deposits though



¹Forecasts pertaining to the state of Arkansas are based on a recent analysis conducted by The University of Arkansas Little Rock's Institute for Economic Advancement.

²The national forecast is based on the National Association for Business Economics November 2004 Outlook Survey.

³This Act allowed for interstate banking and branching activity.

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this ratio has decreased every year since 2001 and now stands at 25 percent of total state deposits (See Chart 2).

- Competition for deposits in Arkansas is strong as evidenced by the sixth fastest growth rate in the number of bank branches in the nation over the past decade.

Arkansas-headquartered banks turn in solid results.

- Strong net interest income combined with lower overhead and loan loss provision expenses drove return on assets (ROA) improvement for 89 (53 percent of total) Arkansas headquartered banks in third quarter 2004.⁴
- Through the third quarter of 2004 only seven (4 percent of total) Arkansas-headquartered banks were unprofitable. These banks were hindered chiefly by low net interest margins and very high overhead expenses compared to their profitable peers.

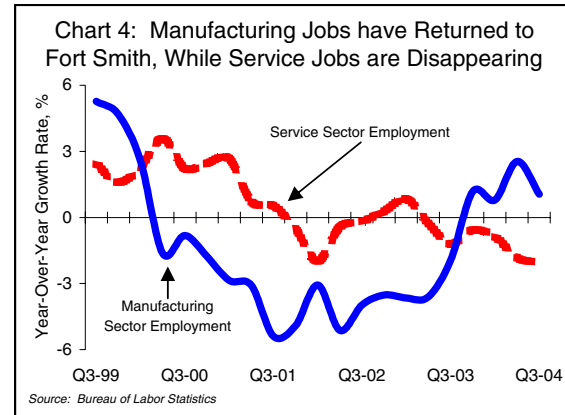
Past-due loan levels fall, but remain high relative to the nation.

- The median past-due ratio, a key indicator of credit quality, has fallen 113 basis points since its peak in first quarter 2001 and 54 basis points over the past year to 2.21 percent in the third quarter of 2004. However, at least some of the improvement is attributable to strong loan growth⁵ (See Chart 3). Despite the recent improvement, Arkansas still has the sixth highest median past-due rate in the nation.

Fort Smith's economy is being dragged down by a weakening service sector.

- In contrast to the state as a whole, the **Fort Smith** economy is being hampered by an underperforming service sector (See Chart 4). In particular, the professional and business services and the education & health services sectors combined have shed approximately 1,500 jobs in the past year. The manufacturing sector has posted solid growth as local companies, such as Whirlpool, Rheem, Trane, and Riverside Furniture Corporation, benefit from the strong housing market. However, an anticipated rise in interest rates should have a cooling effect on the housing market and may in turn dampen demand for local products.
- The weakened economy of Fort Smith appears to explain the slowing in area deposit growth. Total deposits in the metropolitan area grew just 1.2 percent from June 2003 to June 2004, compared to total state deposit growth of

2.6 percent for the same period. This is also well below Fort Smith's previous year's growth of 3.3 percent.⁶



⁴The median ROA for all Arkansas-headquartered institutions was 1.15%, as of September 30, 2004.

⁵Rising loan levels increase the denominator used to compute this ratio, thereby decreasing the ratio.

⁶Growth between June 2002 and June 2003.

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Arkansas at a Glance

General Information	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Institutions (#)	168	171	178	191	198
Total Assets (in thousands)	39,681,872	37,378,203	34,760,558	30,777,234	28,471,406
New Institutions (# < 3 years)	0	0	5	7	9
New Institutions (# < 9 years)	14	14	16	18	20
Capital	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Tier 1 Leverage (median)	10.11	9.48	9.36	9.37	9.40
Asset Quality	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Past-Due and Nonaccrual (median %)	2.21%	2.75%	2.79%	2.76%	2.30%
Past-Due and Nonaccrual >= 5%	27	28	29	31	26
ALLL/Total Loans (median %)	1.43%	1.43%	1.30%	1.19%	1.13%
ALLL/Noncurrent Loans (median multiple)	1.45	1.26	1.16	1.26	1.31
Net Loan Losses/Loans (aggregate)	0.30%	0.39%	0.42%	0.35%	0.24%
Earnings (Year-to-Date Annualized)	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Unprofitable Institutions (#)	7	7	6	12	18
Percent Unprofitable	4.17%	4.09%	3.37%	6.28%	9.09%
Return on Assets (median %)	1.15	1.12	1.15	1.02	1.10
25th Percentile	0.89	0.87	0.87	0.69	0.71
Net Interest Margin (median %)	4.09%	4.11%	4.17%	3.83%	4.05%
Yield on Earning Assets (median)	5.65%	6.05%	6.79%	7.99%	8.07%
Cost of Funding Earning Assets (median)	1.54%	1.92%	2.59%	4.12%	4.10%
Provisions to Avg. Assets (median)	0.17%	0.21%	0.26%	0.20%	0.16%
Noninterest Income to Avg. Assets (median)	0.72%	0.77%	0.71%	0.71%	0.68%
Overhead to Avg. Assets (median)	2.74%	2.75%	2.71%	2.80%	2.73%
Liquidity/Sensitivity	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Loans to Deposits (median %)	74.44%	74.65%	76.27%	77.20%	76.07%
Loans to Assets (median %)	61.35%	61.03%	63.46%	64.76%	63.27%
Brokered Deposits (# of Institutions)	44	40	45	42	52
Bro. Deps./Assets (median for above inst.)	4.52%	3.96%	4.10%	3.42%	3.64%
Noncore Funding to Assets (median)	25.13%	24.61%	23.42%	23.28%	23.62%
Core Funding to Assets (median)	62.94%	62.98%	64.97%	65.46%	65.14%
Bank Class	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
State Nonmember	100	101	107	112	117
National	41	42	41	40	41
State Member	20	20	22	30	30
S&L	3	3	3	3	4
Savings Bank	4	5	5	6	6
Stock and Mutual SB	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	121	18,179,783	72.02%	45.81%	
Little Rock-N Little Rock AR	19	6,691,333	11.31%	16.86%	
Fayetteville-Springdale-Rogers AR	12	9,426,506	7.14%	23.76%	
Ft Smith AR-OK	6	1,411,253	3.57%	3.56%	
Jonesboro AR	5	2,270,814	2.98%	5.72%	
Pine Bluff AR	3	1,444,601	1.79%	3.64%	
Memphis TN-AR-MS	2	257,582	1.19%	0.65%	